

LEGAL SERVICES CORPORATION

BOARD OF DIRECTORS



SEMIANNUAL REPORT TO THE CONGRESS

FOR THE PERIOD

APRIL 1, 2002 – SEPTEMBER 30, 2002

NOVEMBER 30, 2002

FOREWORD

I am pleased to transmit the Semiannual Report of the Legal Services Corporation (“LSC” or “Corporation”) Board of Directors (“Board”), providing comments on the Semiannual Report of LSC’s Office of Inspector General (“OIG”) for the six-month period of April 1, 2002, through September 30, 2002, and providing further explanation of LSC’s activities during the reporting period.

LSC’s Board recognizes the value of the Inspector General function and remains committed to working with the OIG to achieve our goal of providing high quality legal assistance to the poor of our nation.

Douglas S. Eakeley, Chairman
Legal Services Corporation
November 30, 2002

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MESSAGE OF THE BOARD OF DIRECTORS

As the LSC Board of Directors concludes its ninth year of service, we welcome the opportunity to address the Congress and share our perspectives on the current state of federally-funded legal services for low-income Americans. LSC is in the third year of implementation of its Strategic Directions 2000-2005, the principal goals of which are to increase access to justice and improve the quality of civil legal assistance on behalf of the needy and less fortunate. While LSC and its grantees continue their undertaking to maximize the cost-effective use of limited federal resources and to leverage those resources to raise funds from state and local governments, foundations and private sources, the significant unmet need for civil legal assistance in the United States reminds us starkly that we are far from achieving our national commitment of "equal justice for all."

LSC made continued progress in its State Planning Initiative during the reporting period. Over the past six months, LSC facilitated and approved structural changes in two states in order to develop more effective and economical legal services delivery systems. The consolidation of service areas and programs¹ in these states has been designed to maximize economies of scale, evenly distribute access to services, and broaden the delivery of the services available to low-income clients. LSC also provided technical assistance to thirteen states to assist them in planning and implementing the structural and service delivery changes necessary to achieve State Planning goals. Finally, LSC staff traveled to eight states to conduct evaluative and planning meetings with grantees and state equal justice planning bodies.

During the reporting period, LSC continued work on other initiatives to support its grantees and to improve the quality and accessibility of services, including the use of technology to promote and facilitate access to legal services. It has provided a broad range of technological assistance to programs during the reporting period, and it has focused particular attention on projects designed to increase substantially access to legal services, such as the creation of statewide websites and technological projects that assist *pro se* litigants.

Some of LSC's additional efforts during the reporting period include continued program visits to discover innovative procedures that may serve as models for other programs; work with newly reconfigured service areas to ensure the development of comprehensive delivery systems throughout enlarged geographic areas; training to legal services lawyers on the use of the internet and other resources for poverty law research; and attempts to address the large student debt loads that frequently dissuade new lawyers from pursuing careers in legal services programs. LSC also continues to monitor its grantees for compliance with federal law and LSC regulations, working closely with the Office of Inspector General.

¹ 'Programs', 'recipients', and 'grantees' are used interchangeably in this report to refer to recipients of LSC funding.

BACKGROUND

Legal Services Corporation

The Legal Services Corporation is a private, non-profit corporation established in the District of Columbia by the Legal Services Corporation Act of 1974, as amended (the “LSC Act”),² to provide financial support for legal assistance in civil proceedings to persons unable to afford legal services. LSC is governed by an eleven-member bipartisan Board of Directors appointed by the President of the United States with the advice and consent of the Senate. The Board appoints LSC’s President, who serves as the Corporation’s chief executive officer, subject to general policies established by the Board.

The 1988 Amendments to the Inspector General Act of 1978 (“the 1978 Act”) required LSC to establish an Office of Inspector General (“OIG”) and extended specific provisions of the 1978 Act to LSC. Accordingly, such an office was established by and for LSC. The Inspector General is appointed by, reports to, and serves under the general supervision of, LSC’s Board of Directors.

Funding and Grant-Making Activities

LSC provides funding to legal services programs serving indigent persons throughout the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam and Micronesia. To carry out the purposes of the LSC Act, President Bush has recommended an LSC appropriation of \$329,397,000 for Fiscal Year 2003. On July 18, 2002, the Senate Appropriations Committee approved the Commerce, Justice, State and the Judiciary appropriations bill, which included LSC’s FY03 appropriation. To date, there has been no vote in the full Senate. The House has yet to act on the bill in committee. Currently, LSC is being funded at FY02 levels and is operating under a continuing resolution set to expire on January 11, 2003.

LSC’s annual federal appropriation has remained static for the past three years, notwithstanding the increasing need for civil legal assistance among low-income Americans and decreasing state government and private support due to the economic downturn and low interest rates. LSC’s current appropriation of \$329 million is \$86 million less than its FY 1994 appropriation of \$415 million.

² 42 U.S.C. §§ 2996-2996l.

MANAGEMENT INITIATIVES

During this reporting period, LSC continued its efforts to improve the efficiency of its competitive grant award system and the effectiveness of the delivery of legal assistance through its initiative for statewide planning and coordination of legal services. The Corporation continued to demonstrate its ability to ensure both compliance with program rules and regulations, and the maintenance of high quality legal assistance to eligible clients.

State Planning

LSC continues to promote efforts by its grantees to develop comprehensive, integrated delivery systems that reach a greater number of persons, with a broader range of services. The state planning initiative requires grantees to work with other providers and stakeholders within each state, such as the courts, bar associations and client groups, to assure that a full range of high quality services are available to clients regardless of their location within a given state.

During the reporting period, LSC initiated structural changes in two (2) of the most populous states, Florida and New York, in order to develop more effective and economical systems for the provision of legal services to low-income clients. LSC staff worked with the following six (6) additional states considering similar changes: Alabama, Massachusetts, Mississippi, Missouri, Oregon and South Dakota. Consolidation of service areas and programs enables recipients to take advantage of economies of scale, evenly distribute access to services, and broaden the delivery of the services available to low-income clients. Since 1998, the number of grantees has been reduced from 262 to 170 through the state planning process.

LSC made continued technical assistance available during the reporting period to help the following ten (10) states plan and implement the structural and service delivery changes necessary to reach state planning goals: Arkansas, Iowa, Louisiana, Missouri, New Mexico, New York, North Carolina, Tennessee, Texas, and West Virginia. LSC also provided new technical assistance to Alabama, Mississippi, and Montana.

During this period, LSC staff traveled to the following eight (8) states to conduct evaluative and planning meetings with grantees and state equal justice planning bodies: Alabama, Delaware, Kansas, Montana, Minnesota, Mississippi, New York and Tennessee. Varying in length from several days to a week long, these visits inform LSC of the progress and challenges in these states. They also provide grantees and their partners with solid information about achievements in other jurisdictions, innovative ideas, and LSC's expectations with regard to state planning.

LSC staff attended regional meetings of mid-west and southeast LSC grantees in Chicago and Florida to discuss state planning progress during the reporting period.

Taken together, these efforts have resulted in significant, positive changes for LSC's clients throughout the country, including development of additional resources for civil legal services, new and more efficient ways of providing legal information and advice to low-income persons, and more effective and economical structures to assure equal justice to a greater number of Americans.

Competition

The objectives of the competitive grants process are to maintain current information about the legal services delivery system, to facilitate integration of diverse delivery strategies, to improve LSC's knowledge of "best practices" and "model projects," and to help LSC make informed grant decisions.

During calendar year 2003, LSC will award competitive grants to applicants in ninety-seven (97) service areas in twenty-eight (28) states, the District of Columbia, Guam, Micronesia, Puerto Rico, and the Virgin Islands. The 2003 competition process will be completed on schedule in December 2002 for all single applicant service areas. Grant payments will be distributed to successful bidders during the first week of January 2003.

LSC received multiple applications for service area MI-14, which encompasses fourteen (14) counties in the east-central section of Michigan. LSC will conduct a capability assessment in January 2003 to determine the most qualified applicant. Grant decisions will be made in early March 2003. To ensure continuous service to clients, LSC will extend the grants of the current legal services providers in this service area through April 2003.

The competition process continues to evolve into a more useful tool for capacity building within the legal services delivery structure, for identifying areas for further improvement, and for networking legal services programs into comprehensive integrated delivery systems. During the months of February and March 2003, LSC will distribute letters to applicants that filed grant proposals for 2003 funding, seeking feedback on the application process. These letters and their responses will be used to initiate LSC's assessment of the grant application process and the delivery system.

The competitive grants process is automated through an Internet application system, permitting analysis of current information on legal needs, response strategies, and administrative and management systems. As a result, LSC can develop greater intelligence about the many strengths and potential weaknesses in the delivery system. Model program initiatives, advances in technology, programs diversity and training strategies, and new client-centered delivery strategies are being identified through the competition process so that they can be shared and replicated by legal services programs across the country.

This year, LSC is considering the use of electronic grant award letters. This initiative will permit LSC to establish a permanent electronic archive of competitive grant contracts and provide immediate automated access to grant award documents. It will also generate cost savings associated with postage, printing, and staff coordination. Successful applicants will access their electronic grant award documents from a secure website.

LSC's competitive grants process fully complies with the Congressional requirement to award grants through a system of competition and to ensure the most efficient and effective delivery of services to the client community.

An overview of the competitive grants process, the request for proposals, instructions, resource materials, and key competition dates are available at www.ain.lsc.gov. The documents can be accessed by clicking on "Bulletin Board" from the home page of the website.

Technology Efforts

During this reporting period, LSC issued its third series of grants in the Technology Initiative Grant Program. LSC awarded fifty-five (55) technology grants totaling \$4.4 million, all of which were targeted to improve access to justice by the indigent through the use of technology. Examples of technology grants issued during this period include the following:

- A grant to an Alaska program to install computers in six (6) courthouses, providing access to legal information and self-help materials through the Alaska statewide legal services web site;
- A grant to a program in Guam to install twenty-one (21) computers in the village mayor's offices, again providing access to legal information and self-help materials through the territory's web site (which is being constructed with a separate LSC technology grant);
- A grant to LSC's Maryland recipient to create an internet-based, *pro se* litigant support system, to be offered at some of the state's twenty-four (24) court-funded, *pro se* assistance programs. Users will be able to access resource files, as well as their own personal web pages as "personal case account managers." The work under this grant will include the development of a panel of attorneys to provide "unbundled" services to the indigent (i.e. to undertake finite aspects or tasks of cases), as well as mediators willing to offer free services to *pro se* litigants; and
- A grant to the Legal Aid Society of Orange County (California) to expand the I-CAN! (Interactive Community Assistance Network) system, to offer assistance with the Earned Income Credit ("EIC") tax benefit. This expanded service will enable low-income workers to file for the EIC tax benefit by helping them to complete both a Schedule EIC and the 1040, 1040A or 1040EZ tax form. Upon

completion of the form through the I-CAN system, workers will be able to file the returns electronically. The Internal Revenue Service (“IRS”) is a partner in this project, and the project will enable the IRS to increase the number of returns completed electronically.

During the reporting period, LSC awarded an additional twelve (12) grants to fund statewide web sites, bringing the number of states that are now building and/or maintaining such sites to over forty (40). These sites are being constructed to provide low income persons and other citizens with a central resource for legal information and self-help materials in their respective states. LSC has arranged for a donation from Lexis-Nexis of its document assembly software (i.e. HotDocs) for each state, which will increase the availability of legal forms that low-income persons can complete themselves through statewide websites.

To further promote the ability of indigent, *pro se* litigants to represent themselves in court, LSC has worked with the National Center for State Courts, the State Justice Institute, the American Judicature Society, Pro Bono Net, and Zorza Associates to create a web site to serve as a resource center for professionals developing self-help projects. LSC also made presentations at the annual Conference of Chief Justices, and the annual Conference of State Court Administrators, to brief judges and court administrators on advances in *pro se* technology systems which may be of use in their courts.

Program Visits

During the reporting period, LSC continued visiting programs to assess quality, provide technical assistance, assess progress in achieving a comprehensive delivery system in recently reconfigured service areas, address problems, and evaluate innovative procedures which may serve as models for other programs. These visits reaffirmed LSC’s belief that such evaluations expand its understanding of programs’ activities otherwise gleaned from competition applications, grant activity reports and anecdotal information.

To ensure that programs act on recommendations LSC makes in connection with on-site visits, LSC has communicated, and/or planned follow-up visits with programs visited in 2000. LSC has also distributed to other programs the inventive delivery systems observed on these program visits.

From April 1, 2002 through September 30, 2002, teams consisting of LSC staff members and consultants visited ten (10) programs. Two (2) more visits are planned in 2002.

Work with Newly Reconfigured Programs

In 2002, LSC made twenty-four (24) grants to programs serving newly-configured service areas. In order to ensure that grantees were making significant progress in achieving comprehensive delivery systems throughout the larger service

areas, LSC attached special grant conditions to these 2002 grants. These grant conditions require the submission of periodic written reports on specific aspects of comprehensive delivery systems. LSC closely analyzed these reports and provided written and oral feedback to each grantee.

Training

Through a special grant to the National Center on Poverty Law, attorneys at eight (8) programs received specialized training during this reporting period on the use of the Internet and other resources for poverty law research. Under this grant, the National Center on Poverty Law also wrote a New Attorney Manual, which will be widely distributed to new legal services attorneys during the latter months of 2002. The manual will also be available in an electronic form that can be accessed by any legal services worker. The objectives of this manual are to connect new legal services attorneys to the poverty law community and its resources; give a basic road map to selected areas of poverty law; describe how to meet legal needs of certain client populations; and offer research and practice tips.

Loan Repayment Assistance Program

Many new attorneys are dissuaded from joining a legal services program because of the heavy debt they incur to attend law school. LSC is working with the American Bar Association's Commission on Loan Repayment and Forgiveness to examine and report on the effect of the increasing educational debt of law school graduates on the legal profession, and specifically, the effect of such debt on new graduates interested in pursuing careers in public interest law. This year the Commission's work focused on devising solutions to mitigate the debt burden.

Performance Measures to Evaluate State Justice Communities

In December 2001, LSC retained the services of Greacen Associates to create an instrument that allows LSC to make reasonable and comparative judgments about the effectiveness, efficiency and adequacy of state justice communities established through LSC's State Planning Initiative. To assist with this process and ensure that the product is most effective for the legal services community, LSC established a Design Team to work with Greacen Associates. In addition to LSC staff, team members include representation from LSC-funded programs, other legal services providers, foundations, the judiciary, academia, the American Bar Association and the National Legal Aid and Defender Association.

A draft of the evaluation instrument was circulated for comment to all LSC grantees, state equal justice planning bodies and other interested stakeholders in August 2002. LSC received a number of comments which the Design Team will consider in November 2002, prior to testing the instrument in two states in January 2003. The Design Team will then review the instrument in light of the experience at the test sites, with the goal of producing a final instrument for use in late spring of 2003.

Performance Measures to Assess Outcomes for Clients

During this reporting period, LSC initiated efforts to develop a new tool to measure the work that its grantees perform on behalf of low-income clients and their communities in terms of achieved outcomes. LSC issued a Request for Information (RFI) to begin collecting outcomes-based measurement tools used by legal and social services agencies throughout the country. During the next reporting period, these measurement tools will be analyzed in terms of their utility and validity relative to LSC's needs and purposes, and LSC will then initiate the process of developing its own measurement tool.

Diversity, Inclusion and Multi-Cultural Competency

LSC continued its efforts to ensure that its grantees recognize the importance of diversity and inclusion in terms of serving new client communities and groups. During this reporting period, LSC worked with its Diversity Advisory Board to develop a training module to train Boards of Directors of recipient programs on the value of diversity and the need to ensure that programs remain competent to serve clients of different backgrounds who speak languages other than English. The draft training module was tested during this reporting period and will be formally launched on November 22, 2002.

LSC also continued activities to monitor its grantees' performance in terms of retaining diverse staff and leadership. LSC issued a report that analyzed data submitted by grantees over a ten-year period to determine whether grantees' efforts to maintain diverse and multi-culturally competent staffs were improving and to learn if LSC's State Planning Initiative had a deleterious effect on the numbers of women and people of color in leadership positions within the legal services community. LSC determined that although state planning had contributed to a decrease in the numbers of Executive Directors, state planning had not resulted in a decrease in the percentage of Executive Directors or other leaders from minority communities or among women.

Rulemaking Activities

During the reporting period, LSC initiated one (1) rulemaking and continued work on two (2) others. LSC issued a Notice of Proposed Rulemaking to consider revisions to its regulations on the Outside Practice of Law (by full-time attorneys working for LSC grant recipients) at 45 CFR Part 1604. The proposed rule is a republication of revisions proposed in 1995, but upon which final action was never taken. Work continued on Negotiated Rulemakings to consider revisions to LSC's regulations on eligibility (45 CFR Part 1611) and restriction on legal assistance to aliens (45 CFR Part 1626). Working Groups consisting of representatives from LSC, grantees and national organizations interested in legal services met under the direction of a professional facilitator, starting in January 2002 and continuing through the spring. Neither Working Group has yet completed its work, but LSC anticipates publishing Notices of Proposed Rulemakings based on the Working Groups' deliberations later this year. In addition, the

Board of Directors identified the Corporation's regulations at 45 CFR Part 1602, Procedures for Disclosure of Information under the Freedom of Information Act, as an appropriate subject for rulemaking to consider several technical amendments. LSC anticipates initiating a rulemaking on this subject in the near future.

Litigation Update

On August 14, 2002, the United States District Court for the Western District of Virginia issued its opinion in *Legal Services Corporation v. Client Centered Legal Services of Southwest Virginia, Inc.*, 217 F. Supp. 2d 706 (W.D.Va. 2002), a case in which LSC sued a former grantee to recover LSC's interest in real property purchased by the program with LSC funds. The court held that the LSC grant applications and incorporated grant assurances that the program executed on an annual basis created a valid contract that required the former grantee to vacate the building and dispose of it pursuant to LSC's directives. LSC directed the former grantee to transfer the property to its existing grantee, Southwest Virginia Legal Aid Society ("SVLAS"). Although the former grantee has appealed the court's decision, it has vacated the building, which is now being used by SVLAS for the provision of free legal services. The transfer of the property will enable the existing grantee to use money that would otherwise have been spent on rent for the provision of legal services.

Implementation of the 2000 Census

The 2000 Census poverty population statistics became available in June 2002. The release of this data required LSC to recalculate poverty populations by county and adjust funding levels for service areas accordingly.³ During July 2002, LSC recalculated the percentage of its funds that should be distributed to respective states based on the newly released census data. LSC also recalculated poverty populations for its service areas and grantees and adjusted grant amounts accordingly, to provide for the allocation of LSC funds in a way that corresponds with the number of individuals in poverty in each service area.

The poverty population of each service area was computed by summing the poverty population of each county in each service area. The new poverty population statistics were released to the public at LSC's August 2002 Board of Directors meeting.

From 1990 to 2000, the national poverty population increased over 5% and shifted significantly among states. As a result of the population shift and LSC's corresponding, statutorily-driven recalculation of funds for service areas, LSC funding to 27 states and two territories will *decrease* by almost \$18 million. These funding reductions will cause serious disruption in services and involve layoffs of many skilled and experienced legal aid attorneys.

³ LSC ultimately decided to maintain migrant funding at its current level for FY2003. Although the migrant population continues to grow and migrants and their families continue to have significant unmet legal needs, the Census does not track migrants within the poverty population, so LSC does not have sufficient information on migrant population distribution to implement adjustments to its migrant funding.

Puerto Rico alone will lose almost \$3 million, Michigan and Ohio will lose almost \$2 million each, and Louisiana will lose over \$1 million. Fifteen states will lose over 10% of their LSC funding. Seven of the fifteen states will lose 15%-20% of their funding, and two states, North Dakota and Iowa, will lose over 20% of their funding. These nearly devastating reductions in funding are compounded by reduced yields on Interest on Lawyers Trust Accounts (IOLTA), which are currently under review for constitutionality.

The affected states and territories, in order of lost funding, are Puerto Rico; Michigan; Ohio; Louisiana; Mississippi; Illinois; Kentucky; Wisconsin; Minnesota; Iowa; Alabama; Missouri; Texas; Pennsylvania; Arkansas; West Virginia; Oklahoma; Indiana; Tennessee; Kansas; North Dakota; Nebraska; South Dakota; Colorado; Montana; Vermont; Virgin Islands; Wyoming; and Maine.

Work of the Office of Compliance and Enforcement

The Office of Compliance and Enforcement is charged with a number of functions to ensure that recipients are in compliance with the LSC Act and Regulations. These obligations currently range from complaint investigations, to prior approvals of some of recipients' expenditures and activities, to on-site visits to scrutinize compliance and provide training to recipients.

On-Site Reviews

From April 1, 2002, to September 30, 2002, the Office of Compliance and Enforcement ("OCE") conducted on-site visits at the following eighteen (18) programs: Southern Arizona Legal Aid; Ocean-Monmouth Legal Services; Legal Services of Eastern Michigan; Anishinabe Legal Services; Legal Aid Society of Albuquerque; Niagara County Legal Aid Society; Legal Aid of West Virginia; Legal Services of Eastern Virginia; Rhode Island Legal Services; Legal Aid of Arkansas; Northern Kentucky Legal Aid Society (follow-up also conducted of this program during the noted period); Philadelphia Legal Assistance Center; Legal Services of Northern California; the South Carolina Centers for Equal Justice; Central Southwest Mississippi Legal Services; Lane County Legal Aid; Legal Services of Eastern Virginia; and Chemung County Neighborhood Legal Services.

These visits included Case Service Reviews/Case Management Reviews, Technical Assistance Reviews, Accountability Trainings and orientation for new Executive Directors. Furthermore, draft and final reports have been developed/issued for the overwhelming majority of these visits.

A-50 Follow-Up

During the noted period, thirty-five (35) audit findings were referred to LSC management by the Office of Inspector General ("OIG") for follow-up assessment,

pursuant to the requirements of the A-50 process. LSC management has closed all noted findings.

Complaint Investigations

From April 1, to September 30, 2002, OCE opened thirty-four (34) complaints for review and closed sixteen (16).

Subgrants Under 45 C.F.R. Part 1627

OCE approved twenty-nine (29) subgrants during the noted time period.

Fund Balances Under 45 C.F.R. Part 1628

From April 1, to September 30, 2002, OCE reviewed and approved sixteen (16) fund balance waiver requests totaling \$1,310,252, and approved three (3) deficit liquidation plans totaling \$304,840.

Prior Approvals Under 45 C.F.R. Part 1630

During the reporting period OCE reviewed and approved six (6) requests totaling \$354,769 to purchase, lease or renovate personal, non-expendable property for the following recipients: Alaska Legal Services Corporation; Acadiana Legal Services Corporation; Memphis Area Legal Services; Merrimack Valley Legal Services; Legal Services of North Louisiana; and Legal Aid Society of Hawaii.

Audit Reports

OCE reviewed audit reports of 152 recipients during the noted period.

TABLE 1

**Management Report on
Office of Inspector General Audits of Grantees
Issued With Questioned Costs
For the Six Month Period
Ending September 30, 2002**

	Number of Reports	Disallowed Costs
A. Audit Reports for which final action had not been taken by the commencement of the reporting period.	0	\$0
B. Audit Reports on which management decisions were made during the reporting period.	0	\$0
Subtotals (A + B)	0	\$0
MINUS:		
C. Audit Reports for which final action was taken during the reporting period:	0	\$0
(i) Dollar value of disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise.	0	\$0
(ii) Dollar value of disallowed costs that were written by management.	0	\$0
D. Audit Reports for which no final action has been taken by the end of the reporting period.	0	\$0
Audit Reports for which no final action had been taken within six months of issuance	0	\$0

TABLE 2

**Management Report on Audit Reports Issued During
The Six Month Period Ending September 30, 2002,
With Recommendations That Funds Be Put to Better Use By Management
Agreed to in a Management Decision**

	Number of Reports	Dollar Value
A. Audit Reports for which final action had not been taken by the commencement of the reporting period.	0	\$0
B. Audit Reports on which management decisions were made during the reporting period.	0	\$0
Subtotals (A + B)	0	\$0
MINUS:		
C. Audit Reports for which final action was taken during the reporting period:	0	\$0
(i) Dollar value of recommendations that were actually completed.	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed.	0	\$0
D. Audit Reports for which no final action has been taken by the end of the reporting period.	0	\$0
Audit Reports for which no final action had been taken within six months of issuance.	0	\$0